

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

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QUOTE OF THE WEEK

"It is a general popular error to suppose the loudest complainers for the public to be the most anxious for its welfare." --- Edmund Burke (1729-1797) British statesman, parliamentary orator, and political thinker

For mid-week updates check out the Leonard Blog at: <http://www.billleonard.org/>

AROUND THE STATE

*****State Needs Debt Limit Before New Bonds*****

From the Bill Leonard Blog

I want to thank Adrian Moore and George Passantino from the Reason Foundation and Carl DeMaio from the Performance Institute for inviting me to their press event last week on the November bond package. I recommend Reason's site for detailed breakdowns of the bonds and also the Performance Institute's proposal for a debt limit.

http://www.reason.org/californiaballot/californiaballot_debtlimit.pdf

First, the combined cost of the bonds on the November ballot will be \$42.7 billion in new debt. To pay this off over 30 years will cost about \$84 billion; Reason estimates that is around \$7,300 from each California family. But what is worse is that this bond package is on top of around \$45 billion in general obligation bonds the state is paying off already, plus \$30 billion in bonds previously approved by voters that are in the pipeline, but not yet sold. Moreover, DeMaio points out that the state has more than \$110 billion in unfunded pension obligations to local and state employees that will be coming out of the General Fund as well. In short, we are swimming in debt.

How much debt is too much? The consensus from the likes of the Legislative Analyst Office and financial firms is that the state should not exceed debt service that is more than 6% of state revenues. Even without the new bonds, we will already be spending more than 7% until 2010 when the Governor's Economic Recovery bonds are paid down. It is clearly time to pause for a bit on additional bonding. The Performance Institute is proposing that we cap state debt service at the 6% level over which new bonds can be approved by voters, but they would not be issued until the state's debt service comes

down under the 6% threshold. This is a very modest and easy to understand solution to this ruinous borrowing spree we are now on.

ISSUE FOCUS

Tax Cuts Delivering Record Revenues

This is one of those stories where everybody agrees with the facts but they still want to debate the cause. I was stunned when I read a Dow Jones story that on September 15 the Federal Government reported the highest one-day revenue total ever. The \$85.8 billion that came in on that quarterly deadline surpassed last year's record set on the same day of \$71 billion by 20%. I also learned from WSJ economist Stephen Moore that 2005 and 2006 federal revenues have increased more than \$520 billion – the largest revenue increase over a two-year period in American history.

Now that we have dispensed with the facts, onto the debate: Democrats (I hate to say 'never') will probably never concede that lowering taxes can bring in more revenue even though this phenomenon was clearly evident from the Kennedy tax cuts, the Reagan tax cuts and even more so now. So entrenched is this thinking that even the supposedly non-partisan Congressional Budget Office refuses to acknowledge that tax cuts have a positive effect on the economy. The data should shame all of them. Stephen Moore, writing in the current American Spectator notes that in 2003 critics said the Bush tax cuts would blow a \$2 trillion hole in the federal deficit over the following ten years. Just three years after -- in 2006 -- the deficit will be below \$300 billion and it's dropping like a rock, despite the war in Iraq and the Republicans' spending spree.

Since the tax cuts of 2003, corporate tax receipts are up by 40%. But this is not even the best part. The biggest gains have come from capital gains and dividend tax payments, perhaps the most controversial component of the 2003 cuts. Moore cites Congressional Budget Office data that these tax revenues are up 70% since 2003, even though the tax rate was slashed down to 15%. The CBO predicted in 2004 that by January 2006 capital gains revenues would be \$197 billion. Boy, do they have eggs on their faces now. The actual number will be closer to \$290 billion.

The opponents of the tax cuts are stuck in a Keynesian Age. They would prefer government stimulate the economy by taking more money in taxes and pumping this to the states through programs, and having it filter down from there. This totally contradicts basic economics and ignores the velocity of money. What a supply-side tax cut does is unlock capital so it can be re-spent. This reduces the punishment on those who want to sell assets and then spend or re-invest in something else. Anybody who argues that this does not have a marvelous, stimulative effect is not looking at the data -- like the New York Times. The Times reported that revenues are exploding, but they call it a "mystery" -- yeah, right. To the architects of the Bush plan, there is no mystery why American households have \$6 trillion more wealth than they did in May 2003. Families that make under \$40,000 a year have seen their tax liabilities go down \$1,000 a year, and their portfolios and houses have not fared badly either.

Moore adds that former Treasury Secretary John Snow told him that Bush wanted the dividend and capital gains tax eliminated completely. Bush settled for a cut to 15%, but just imagine the boom we would have had the President gotten his way completely.

Vindication is sweet indeed.

MISCELLANY

California County History

Sutter County was created 1850 and named after General John Augustus Sutter, a native of Switzerland, who obtained a large land grant from the Mexican government and called his first settlement New Helvetia (now the City of Sacramento). In 1841, General Sutter established a great stock ranch—Sutter's Hock Farm—in this area north of Sacramento on the Sacramento River, the first large-scale agricultural settlement in Northern California. Sutter retired to the ranch in 1850 when gold seekers deprived him of most of his holdings at Sacramento.

Like last week's example of Stanislaus County, the county seat in Sutter changed places several times. The first county seat was proclaimed by Senator Thomas J. Green on the land he had bought from John Sutter, which he called "Oro." However, Senator Green neglected to inform the legislature that the town only existed on paper and actually had only one building in it. The next county seat was the town of Nicolaus, a bustling trading post and ferry crossing of the Feather River, but the seat changed locations several more times before voters in 1856 named Yuba City as the permanent county seat.

A Good Read

This week's suggestion is really a great read. *The Victory of Reason, How Christianity Led to Freedom, Capitalism, and Western Success*, by Rodney Stark is a tour de force. The author's thesis is not modest. He argues that just about everything we have as a society that is good – our discoveries, our prosperity, even our freedom – all owe their existence to Christianity. Stark sets out to show that among the world's religions it is Christianity's unique point of view that logic and deductive reasoning is essential for progress that has given the West the advantages it now enjoys. I have long known that Christians invented the university and laid out the rules of inquiry for science. What I did not see before coming across this book is the argument that Christianity is also responsible for bringing us capitalism, which takes up the second part of the book.

The timeliness of this message cannot be better. While Pope Benedict's comments quoting a 14th Century theologian were widely and tumultuously circulated throughout the world, the rest of the speech was not. The main message of the address was that reason is indispensable for disciplining religious faith. Earlier, the Pope had said that it is reason that takes the toxins out of religion. Benedict's message is that the great civilizing

strength of Christianity is a product of its adherence to Greek reason. Stark's book is a wonderful historical illustration of this phenomenon -- the tremendous cultural bounty brought to the world by Christianity's marriage of faith and reason.

BOE AND LEGISLATIVE DATES

September 27, 2006 --- BOE meets in Sacramento.

September 30, 2006 — Last day for Governor to sign or veto bills passed by the Legislature before September 1 and in his possession on or after September 1 (Art. IV, Sec.10(b)(2)).

October 5, 2006 --- Free Tax Seminar for Nonprofit and Faith-based organizations in Ontario/Chino. For more information/registration, go to:
<http://www.boe.ca.gov/sutax/nonprofitsched.htm>

October 9, 2006 --- First day absentee ballots will be mailed to those who have requested them.

October 9, 2006 --- Columbus Day.

October 11, 2006 --- Board of Equalization meets in Sacramento.

November 1, 2006 --- Last day to apply for an absentee ballot for the general election.

November 7, 2006 --- General election day.

November 15, 2006 --- Board of Equalization meets in Konocti Harbor.

NOTABLE DATES/ HISTORY

September 25, 1513 --- The members of a Spanish expedition under Vasco Núñez de Balboa crossed the Panamanian isthmus, becoming the first Europeans to see the Pacific Ocean.

September 25, 1690 --- "Publick Occurrences, Both Forreign and Domestick," the first multi-page newspaper in the American colonies, published its only issue before being suppressed by the Royal colonial government of Massachusetts.

September 25, 1789 --- Led by James Madison, the U.S. Congress approved 12 amendments to the Constitution. Ten of these amendments, which went on to be ratified by the states in 1791, became known as the Bill of Rights. Extra points if you know the other two.

September 25, 1957 --- After prolonged resistance by local leaders, nine African American students entered Central High School in Little Rock, Arkansas, under the protection of the National Guard call out by President Eisenhower.

September 25, 1981 --- Republican Sandra Day O' Connor, nominated by President Ronald Reagan, was sworn in as first woman to serve on U.S. Supreme Court.

September 26, 1789 --- U.S. President George Washington appointed John Jay as the nation's first chief justice of the Supreme Court, and Thomas Jefferson as the first Secretary of State.

September 26, 1960 --- In Chicago, Illinois, Democratic Senator John F. Kennedy and Republican Vice President Richard Nixon participated in the first televised debate between U.S. presidential candidates.

September 27, 1964 --- The Warren Commission, named to investigate the assassination of U.S. President John F. Kennedy, released its report finding that Kennedy's assassin, Lee Harvey Oswald, acted alone.

September 27, 1994 --- The Contract with America, a ten-point legislative agenda prepared by Republican Congressman Newt Gingrich, was signed by more than 350 Republican candidates for Congress.

September 28, 1066 --- The Norman conquest of England began, as an army led by William the Conqueror landed at Pevensey, England. William went on to be crowned king of England by the year's end.

September 29, 1923 --- Golden Gate Park's Steinhart Aquarium opened to the public.

September 30, 1953 --- Earl Warren, California's three-term Republican Governor and 1948 Republican vice presidential nominee, was nominated to be Chief Justice of the Supreme Court. He went on to write the landmark decision in Brown v. Board of Education.

September 30, 1955 --- Actor James Dean died at the age of 24 in an automobile accident near Cholame, California in San Luis Obispo County, having starred in only three motion pictures.

October 1, 1908 --- Ford's Model T went on sale in America. The two-seater "tin Lizzy" cost \$850.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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